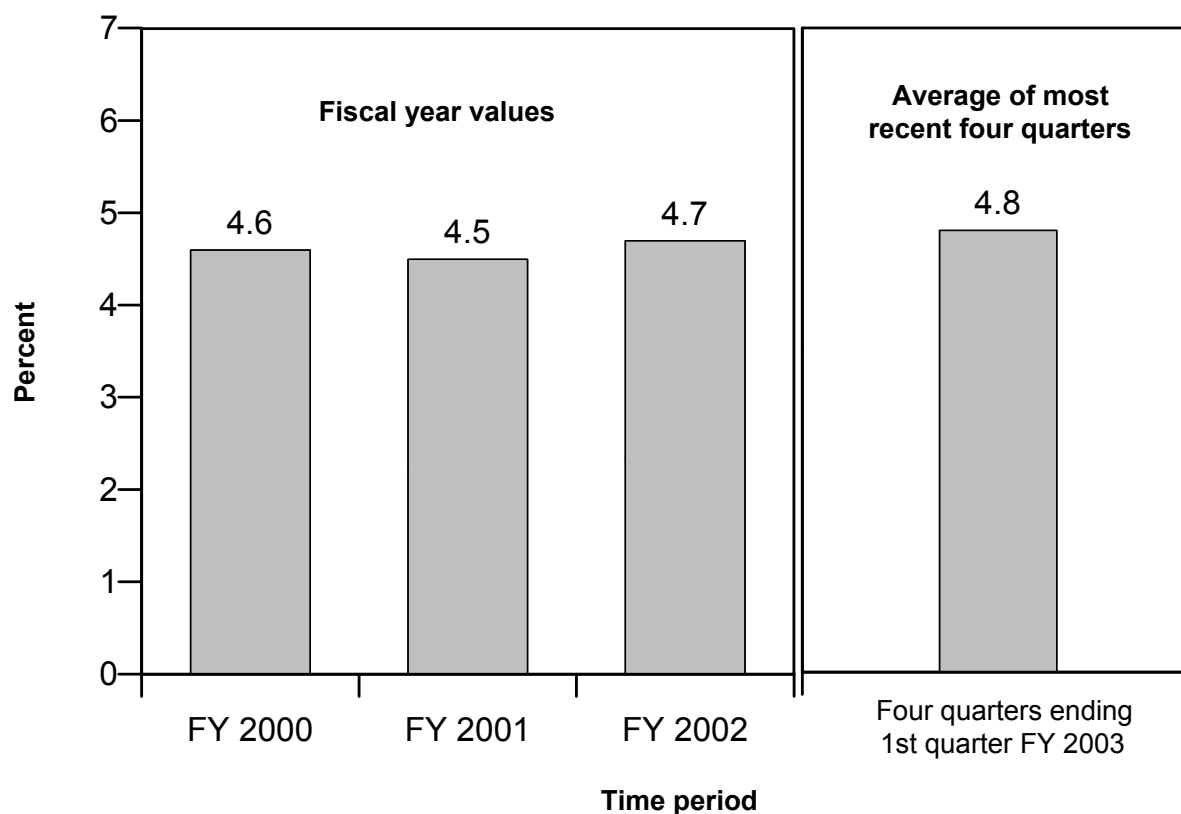


Hospital total margins from the National Hospital Indicator Survey

This memorandum reports our latest measurement of hospital total margins (covering all payers) from the National Hospital Indicator Survey (NHIS). The first section presents results

for the twelve months including the first quarter of fiscal year (FY) 2003. The second section provides information on the design and operation of the survey.

Trend in hospital total margin, fiscal years 2000-2003



Note: Fiscal year covers October to September. Data cover community hospitals.

Source: MedPAC analysis of data from the National Hospital Indicators Survey (sponsored by CMS and MedPAC, conducted by the American Hospital Association).

Results through the first quarter of fiscal year 2003

MedPAC's general approach is to report total margins on a fiscal year basis. However, in order to provide more timely information, we expect to update our data on a quarterly basis. This approach allows each report to reflect the most current data while avoiding the distortion from seasonal and random variation that affect quarterly margins. So, as noted in the chart, this memo reports a total margin for the twelve months ending December 2002; that is, the last three quarters of FY 2002 and the first quarter of FY 2003. The current value is 4.8 percent. Although this is up a tenth of a percent from FY 2002, the change is not statistically significant.

The aggregate total margin has held fairly steady the last three fiscal years, starting at 4.6 percent in FY 2000, falling slightly to 4.5 percent in FY 2001, and then rising to 4.7 percent in FY 2002.

Methods and data

The NHIS is a quarterly survey of community hospitals throughout the United States sponsored by the Centers for Medicare & Medicaid Services and MedPAC. It provides timely estimates of hospitals' financial performance and potentially provides MedPAC with a leading indicator of changes in the total margins we will eventually see for all hospitals from their Medicare cost reports. The survey is conducted by the American Hospital Association through a subcontract with The Lewin Group.

The NHIS sample consists of nearly 1,900 community hospitals throughout the United States that are stratified according to eight bedsize categories and nine census divisions. Approximately 780 hospitals currently provide data each quarter. The NHIS uses the same sample design as the former National Hospital Panel Survey, also conducted by the American Hospital Association. The results are weighted

by number of hospital beds, with data imputed when there are fewer than two hospitals in a bedsize/census division category. The weighted and imputed results are intended to be nationally representative.

Total margins are calculated as revenue from all sources (including public and private payers, tax appropriations, and non-patient care revenue) less total expenses, divided by total revenue.

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August 7, 2003